

Z.F. MGCAWU DISTRICT MUNICIPALITY



ANNUAL BUDGET

20182021

Introduction

The draft annual budget for the Medium Term Revenue and Expenditure Framework for the period 2018-2021, is presented in the background of the District Municipality having received its 5th consecutive clean audit from the Auditor General for the 2016/2017 financial year. We managed to achieve these prestigious accolade based on the hard work of both council and administration but we are also cognisance of the fact that this outcome places a huge responsibility on us as the District to assist the local municipalities to also migrate from disclaimers of opinion from the auditor general.

In celebrating how we have come and how much we have accomplished, we need to look to the future and continue to plan and be prepared for the challenges and opportunities at our disposal looking at the triple challenges of poverty, unemployment and inequality facing our country.

This budget has been a product of very careful planning and forward thinking to ensure that we do not lose sight of the identified five year Integrated Development Plan (IDP) priorities. This IDP represents the new 5 year plan for the current council. The Municipal Systems Act requires us to ensure financially and economically viable municipalities and essentially this is guided by the IDP, which is our principal strategic planning instrument.

The South African economy shrank a seasonally adjusted annualized 2.2 percent on quarter in the first three months of 2018, reversing from a 3.1 percent growth in the previous period and market expectations of a 0.5 percent decline. The country's current grading status by the Foreign Credit Grading Companies is stable at Baa3. The municipalities must adopt a conservative approach when projecting their expected revenue and cash receipts as well as pay particular attention to managing of revenue effectively and carefully and evaluate all spending decisions. In generating capacity for spending on key municipal infrastructure, the municipalities will have to identify inefficiencies and eliminate non-priority spending.

We as a district municipality in particular, have managed to continue to evolve as we adapted to new developments and the inevitable setbacks.

The Final Annual Budget, are compiled in very challenging circumstances for the district municipality. The administration of the council is good and on standard with the rest of the country,

- however the lack of proper funding hamper the change management challenges, mSCOA requires;
- Municipal Systems Improvement Grant and the Fire Fighting Grant has been discontinued which put the limited revenue under more pressure
- The 1% VAT increase and the fuel hikes during the first 5 months of 2018, had an enormous effect on the expenditure of council, especially with the current cash challenges council face and will continue to worsen unless sustainable financial projects are canalised to ZF Mgcawu District Municipality.

Budget outline and legal requirements

The budget for the 2018/19 financial year has been drawn up in terms of chapter 4 of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Municipal Systems Act of 2000 (MSA) on matters specifically related to the budget as well as direction from National Treasury on policy guidelines (MFMA Circulars).

In terms of section 16 (1) of the Municipal Finance Management Act No.56 of 2003, the council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year. Subsection 2 of the MFMA provides that for a municipality to comply with subsection (1), the mayor of the municipality must table the budget at a council meeting at least 90 days before the start of the budget year.

The Municipal Finance Management Act, places the responsibility of budgets squarely on the shoulders of Mayors of municipalities, this is not just in respect of the tabling of budgets to Council but also to ensure that they are actively involved in the drafting of said budgets and ensuring regular meetings with the administration to discuss and give inputs in the drafting of budgets.

An inclusive budget participatory process was followed in drafting this particular budget. We received the inputs from Departmental heads and middle managers and frequent budget steering committees were held, this enabled us to view and review the figures to fully satisfy the needs of the District. Two budget steering committee meetings were convened during May 2018 for the final budget.

We drafted this budget from the premise that there is a need for the District to support local municipalities but also to illustrate the challenges we face as a District in accomplishing that goal. This budget places on us the responsibility to make a decision between competing priorities and fiscal realities. The challenge is to do more with the limited available resources. The Municipal Systems Improvement Grant was earmarked for quality support to the local municipalities in the district but since it will no longer be allocated more pressure is put on the Equitable Share Grant from which statutory expenditure is funded.

The drafting of this budget was imperative that we ensure that the budget is realistic, sustainable and relevant and that it complies with all the requirements of the MFMA and the relevant circulars. National Treasury's MFMA Circulars No. 58, 59, 66, 67, 70, 72, 74, 75, 78, 79, 82,85,86,89 and 91 was consulted as guidelines for the process on compilation of the Final Annual Budget 20182021.

The guidelines as set out in Circular 82 regarding Cost Containment measures have been part and parcel of the planning and budget process of the ZF Mgcawu District Municipality since 2011, when our Equitable Share Grant was reduced due to the re-demarcation of the DMA - Riemvasmaak and Swartkopdam. We have an Operation efficiency Plan which was compiled and implemented in 2013 and a Cash Back Report are implemented during 2014 to monitor and control spending on a weekly basis by the accounting officer.

Role of the District Municipality

As the District Municipality, we are entrusted with the responsibility of building the capacity of local municipalities and rendering support services to them. In light of this, both our Integrated Development Plan and SDBIP have been drafted in such a way that it speaks to the needs of the local municipalities and determines to what extent we can give support as we truly strive towards being a centre of excellence. We acknowledge that a credible budget requires effective economic understanding and allocating resourcing in line with policy priorities and delivering services efficiently.

The vision and mission of the district municipality has changed during the past five years to emphasis our constitutional mandate as a District Municipality after the re-demarcation of the DMA (Riemvasmaak and Swartkopdam) and the Roads Agency Function that went back to Provincial Department.

We further attempt to achieve the following objectives:

- *To assess and provide targeted support improving institutional capacity and service delivery capabilities of category B-municipalities*
- *To promote environmental health and safety of communities in the ZF Mgcau District through the proactive prevention, mitigation, identification and management of environmental health services, fire and disaster risks.*
- *To facilitate the development of sustainable regional land use, economic, spatial and environmental planning frameworks that will support and guide the development of a diversified, resilient and sustainable district economy.*
- *To market, develop and co-ordinate tourism in the ZF Mgcau District.*
- *To assess and monitor the status of infrastructure needs and requirements of B Municipalities.*
- *To ensure efficient business operations and to fulfil the assurance statutory requirements of the ZF Mgcau District Municipality.*

District Challenges

We have extensively maintained transparency when it comes to the budget process and that has informed our decision making in respect of this budget.

It is important that we understand the challenges that we face as a District and these challenges, have a direct impact on the financial status of our Municipality. These challenges include but are not limited to the following:

- *The District Municipality simply does not have sufficient funding to fund all areas that need to be priorities - with this in mind; we have resorted to source alternative revenue sources by appointed a consultancy firm on risk based to find means and ways to improve the financial position of the district municipality. This project also involved the local municipalities to have evitable change in the LED, Tourism and Project Management Units, that will have measurable deliveries to better the lives of the communities.*

- *The District Municipality is 100% grant dependent*
- *We have zero capital projects*

We are working towards building a responsive, caring and accountable local government and we are mindful of the difficult economic conditions facing our country, therefore our decisions need to be characterised by the realities of the budget without underestimating the delivery of services to our people.

Budget 2018/2021

DC8 Z F Mgcawu - Table A1 Budget Summary

Description	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
R thousands										
<u>Financial Performance</u>										
Property rates	-	-	-	-	-	-	-	-	-	-
Service charges	-	-	-	-	-	-	-	-	-	-
Investment revenue	306	533	726	750	750	750	-	800	850	875
Transfers recognised – operational	52 648	56 599	57 621	61 530	59 330	59 330	-	71 098	74 315	77 321
Other own revenue	1 492	1 117	1 771	3 535	2 227	2 227	-	5 250	110	110
Total Revenue (excluding capital transfers and contributions)	54 446	58 248	60 118	65 815	62 307	62 307	-	77 148	75 275	78 306

The total revenue amounts to R 77,148 million.

Transfers Operational are 92 % of the total Revenue Budget.

Other Revenue amounts to R 5,250 million which include R 5 million for Shared Services for which the director of Planning and Development have an Key Performance Indicator and will form part of the top layer SDBIP for 20182019 for continuous monitoring. The R250 000 are for LGSETA funds.

The Conditional Grants that are gazetted for the district municipality are set out below.

DC8 Z F Mgcawu - Supporting Table SA18 Transfers and grant receipts

Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18			2018/19 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
EXPENDITURE:										
<u>Operating expenditure of Transfers and Grants</u>	1									
National Government:		50 879	55 764	55 968	60 430	58 230	58 230	69 960	73 319	76 322
Local Government Equitable Share		47 645	50 187	51 034	55 770	53 570	53 570	66 094	69 284	72 111
Finance Management		1 250	1 250	1 250	800	800	800	1 000	1 000	1 000
Municipal Systems Improvement		984	930	–	–	–	–	–	–	–
EPWP Incentive		1 000	1 000	1 000	1 000	1 000	1 000	–	–	–
Rural Road Asset Mangement Grant			2 397	2 684	2 860	2 860	2 860	2 866	3 035	3 211
Provincial Government:		3 750	–	1 100	1 100	1 100	1 100	1 138	996	999
Housing		2 420		750	750	750	750	750	750	750
Disaster Management		1 330		350	350	350	350	388	246	249
Total operating expenditure of Transfers and Grants:		54 629	55 764	57 068	61 530	59 330	59 330	71 098	74 315	77 321

The table below indicates that the total operational expenditure for 2018/19 amounts to R 70,409 million . Employee Related Cost is the highest expenditure type for the council and the budget amount are R 50,750 million (72%). It was budgeted for all positions on the current organogram except for the vacant position.

DC8 Z F Mgcawu - Table A1 Budget Summary

Description	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Financial Performance										
Employee costs	39 826	44 230	48 248	43 867	48 484	48 484	–	50 750	53 239	56 295
Remuneration of councillors	3 190	3 290	3 229	3 839	3 810	3 810	–	4 077	4 362	4 667
Depreciation & asset impairment	964	709	589	583	583	583	–	589	589	589
Finance charges	120	35	5	5	5	5	–	–	–	–
Materials and bulk purchases	563	–	–	1 537	–	–	–	–	–	–
Transfers and grants	4 139	–	–	4 505	–	–	–	–	–	–
Other expenditure	10 328	11 926	15 308	9 905	16 664	16 664	–	14 994	15 676	16 031
Total Expenditure	59 130	60 190	67 379	64 240	69 545	69 545	–	70 409	73 866	77 582

The district municipality does not have regulated tariffs which can be aligned to the Budget as Realistic Anticipated Revenue.

The district municipality does not receive any Capital Grants from National or Provincial Government Departments for capital projects. The Budgeted Capital Expenditure will be funded partly from own funds, Equitable Share Grant, RRAMS and FMG.

DC8 Z F Mgcawu - Table A1 Budget Summary

Description	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
R thousands										
Capital expenditure & funds sources										
Capital expenditure	780	468	1 707	1 530	740	740	–	2 905	2 000	1 550
Transfers recognised - capital	470	254	234	995	340	340	–	810	610	650
Public contributions & donations	–	–	–	–	–	–	–	–	–	–
Borrowing	–	–	–	–	–	–	–	–	–	–
Internally generated funds	310	214	1 473	535	400	400	–	2 095	1 390	900
Total sources of capital funds	780	468	1 707	1 530	740	740	–	2 905	2 000	1 550

The table below summarised the cash flow of the district municipality. Net cash from (used) financing are R nil because the district municipality does not have long term debt currently as DBSA loans have been paid off during 2016/ 17 and does not anticipate to take up any loans. The district municipality anticipate that Cash/cash equivalents at the yearend will amount to R4,775 thousand.

DC8 Z F Mgcawu - Table A1 Budget Summary

Description	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
R thousands										
Cash flows										
Net cash from (used) operating	(1 529)	476	121 537	1 982	376	376	–	7 391	1 771	1 108
Net cash from (used) investing	(779)	3 612	1 862	(1 330)	(608)	(608)	–	(2 905)	(2 000)	(1 550)
Net cash from (used) financing	(894)	(477)	102	–	–	–	–	–	–	–
Cash/cash equivalents at the year end	105	3 716	127 217	941	56	56	–	4 775	4 546	4 104

As a District we have been in discussion with the local Municipalities to ensure that we attend to the support services needs identified by them. The costs for rendering support to our locals are mainly funded from the Equitable Share funding allocated by National Treasury. The budget is an instrument through which we manage public funds in a way that ensures that we improve the quality of life of our people and ours is to ensure that we assist local municipalities in achieving their goal of delivering basic services.

DC8 Z F Mgcawu - Table A1 Budget Summary

Description	2014/15	2015/16	2016/17	Current Year 2017/18				2018/19 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
R thousands										
Cash backing/surplus reconciliation										
Cash and investments available	105	3 716	289	6 350	289	289	–	3 500	4 500	5 000
Application of cash and investments	10 340	9 945	13 410	8 447	13 759	13 759	–	10 950	3 505	1 960
Balance - surplus (shortfall)	(10 235)	(6 229)	(13 121)	(2 097)	(13 471)	(13 471)	–	(7 450)	995	3 040

The Cash Back Reconciliation table above indicates that the MTREF Final Annual Budget of the district municipality is unfunded and anticipates a deficit of R 7,450,000.

Conclusion

We reiterate the fact that drafting this budget has been difficult due to the economic conditions facing our country but we are committed to ensuring that we manage public funds in a prudent and responsible manner thereby ensuring that government is more efficient, accountable and transparent to the people it serves.

It is crucial that as a government we invest in our youth to ensure a skilled and capable workforce to support government priorities. Therefore the district municipality enrolled all middle managers to obtain the minimum competency level as required by National Treasury. Various junior officials are enrolled for the LGSETA NQF level 4 and 6 Certificate for Municipal Financial Management and Public Administration to equip them with academic qualifications. Individual municipalities require different fiscal policy responses in order to achieve their developmental objectives. Despite an overall improvement in the provision of infrastructure, widespread poverty and inequality, structural unemployment and a slow pace of transformation thwart the realization of our developmental goals.

The Minister of Finance said in his budget speech that “we must spend government money as if we are spending our own money” this means more prudent and responsible spending.

As a district municipality we hope that the 2015 Budget speech of the MEC Finance and Economic Development of the Northern Cape shared with us in his budget speech that government will strengthen the shared services in the district municipalities in areas of financial management and in line with this a Cooperative Governance Agreement has been signed between COGHSTA and Provincial Treasury that aims to coordinate the support approach to municipalities. The district municipality led by the executive mayor has approached National Treasury and other departments for additional funding to create financial sustainability.

We are convinced that our management team, officials and workers are committed to serve and make a lasting contribution to improve the quality of life of every citizen.

The Final Annual Budget 2018/2021 was presented and discussed in the Financial Viability, Mayoral Committee Meetings and workshop with all councillors who share the oversight responsibility to ensure sound, clean financial administration are met.